

POWELL COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2009

POWELL COUNTY SCHOOL DISTRICT

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POWELL COUNTY SCHOOL DISTRICT

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Chris Gooch

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INDEPENDENT AUDITOR'S REPORT

State Committee For School District Audits
Members of Powell County Board of Education
Stanton, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powell County School District, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Powell County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Powell County School District as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2009, on our consideration of Powell County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Powell County School District's basic financial statements. The combining and individual nonmajor fund financial statements and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Powell County School District. The combining and individual nonmajor fund financial statements, other supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 26, 2009

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2009

As management of the Powell County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including MMA accounts and fiduciary funds, for the District was \$1,933,679. The ending cash balance, including MMA accounts and fiduciary funds, for the District was \$1,629,533.
- Interest revenue totaled \$54,556 for the year ended and for the prior year the total interest revenue was \$140,728.
- The District's total long-term debt principal increased by \$746,267.
- Total general fund revenue was \$17,217,638 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. This total includes \$3,299,212 in state on behalf payments. Excluding transfers and state on behalf payments, there was \$14,073,435 in total general fund expenditures.
- Total building renovations and additions for the year ended totaled \$1,217,681, primarily consisting of work related to the Powell County Middle School roofing project.
- The District expended \$3,355,253 in federal awards for the year ended.
- The Board received proceeds from a bond obligation for the roofing project at Powell County Middle School during the fiscal year in the amount of \$1,275,000. The debt was recognized in the prior year government-wide financial statements and a related asset is recognized for the actual renovation expenditures incurred by the District.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2009

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2009, assets exceeded liabilities by \$6,656,125.

The greatest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net assets for the years ended June 30, 2009 and 2008

Following are comparisons of net assets:

| | At June 30, | |
|--|-------------------|-------------------|
| | 2009 | 2008 |
| Current Assets | 1,973,186 | 2,255,743 |
| Noncurrent Assets | 17,365,107 | 18,189,944 |
| <u>Total Assets</u> | <u>19,338,293</u> | <u>20,445,687</u> |
| Current Liabilities | 1,634,020 | 1,683,211 |
| Noncurrent Liabilities | 11,048,148 | 11,852,624 |
| <u>Total Liabilities</u> | <u>12,682,168</u> | <u>13,535,835</u> |
| - Net Assets - | | |
| Investment in Capital Assets (net of debt) | 5,170,149 | 5,181,111 |
| Restricted | 167,542 | 769,953 |
| Unreserved Fund Balance | 1,318,434 | 958,788 |
| <u>Total Net Assets</u> | <u>6,656,125</u> | <u>6,909,852</u> |
| <u>Total Liabilities and Net Assets</u> | <u>19,338,293</u> | <u>20,445,687</u> |

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2009

- Current assets increase is primarily a result of a decrease in general fund balance deficiency of revenues over expenditures of \$155,009 and a cash flow decrease in the school food service fund of \$62,108.
- Noncurrent assets reflect \$993,681 in depreciation expense recognized for the general fund.
- Noncurrent liabilities, including the current portion of long-term debt, reflect principal reductions of \$746,267.
- Restricted net assets include reserves from capital projects, debt service and sick leave payments and site-based carry-forward funds. A decrease in restricted assets is primarily the result of expenditure of cash resources for ongoing construction renovation and addition projects.

Comments on budget comparisons

The following table presents a comparison of budget to actual for the general fund for the fiscal year ended June 30, 2009:

| | <u>Budget 2009</u> | <u>Actual 2009</u> | <u>Variance I/(D)</u> |
|--|--------------------|--------------------|-----------------------|
| Revenues: | | | |
| Local revenue sources | 2,061,418 | 2,213,887 | 152,469 |
| State revenue sources | <u>11,692,539</u> | <u>15,003,751</u> | <u>3,311,212</u> |
| <u>Total revenues</u> | <u>13,753,957</u> | <u>17,217,638</u> | <u>3,463,681</u> |
| Expenses: | | | |
| Instruction | 8,878,269 | 11,365,882 | 2,487,613 |
| Student support services | 463,462 | 488,559 | 25,097 |
| Instructional support | 489,475 | 618,968 | 129,493 |
| District administration | 845,315 | 1,037,579 | 192,264 |
| School administration | 1,023,766 | 1,203,167 | 179,401 |
| Business support services | 113,140 | 126,853 | 13,713 |
| Plant operations and management | 1,624,942 | 1,749,715 | 124,773 |
| Student transportation | 989,378 | 781,924 | (207,454) |
| Contingencies | <u>651,445</u> | <u>-</u> | <u>(651,445)</u> |
| <u>Total expenses</u> | <u>15,079,192</u> | <u>17,372,647</u> | <u>2,293,455</u> |
| <u>Excess (deficiency) of revenue over expense</u> | <u>(1,325,235)</u> | <u>(155,009)</u> | <u>1,170,226</u> |

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2009

- Actual balances reflect state on behalf payments totaling \$3,299,212.
- Local tax revenues were \$117,900 greater than budgeted revenue.
- Budgeted interest revenue was \$84,216 less than actual revenue.
- Utility tax revenue was \$82,495 greater than budgeted revenue.
- Actual general property tax revenue exceeded budget expectations by \$86,396.

The following table presents a comparison of government wide revenue and expense for the fiscal years ended June 30, 2009 and 2008:

| | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|
| Revenues: | | |
| Local revenue sources | 2,838,455 | 2,776,398 |
| State revenue sources | 17,431,305 | 16,960,302 |
| Federal revenue | <u>3,331,859</u> | <u>3,500,261</u> |
| <u>Total revenues</u> | <u>23,601,619</u> | <u>23,236,961</u> |
| Expenses: | | |
| Instruction | 14,428,404 | 14,290,294 |
| Student support services | 564,752 | 539,527 |
| Instructional support | 1,216,931 | 1,112,670 |
| District administration | 1,185,485 | 1,056,373 |
| School administration | 1,310,756 | 1,275,549 |
| Business support services | 129,984 | 164,373 |
| Plant operations and management | 1,870,994 | 1,764,720 |
| Student transportation | 1,022,505 | 1,145,424 |
| Food services operation | 1,355,211 | 1,334,351 |
| Community services operations | 300,694 | 341,234 |
| Interest on long-term debt | <u>469,620</u> | <u>476,057</u> |
| <u>Total expenses</u> | <u>23,855,336</u> | <u>23,500,572</u> |
| <u>Excess (Deficiency) of revenue over expense</u> | <u>(253,717)</u> | <u>(263,611)</u> |

POWELL COUNTY SCHOOL DISTRICT
STANTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2009

- Investment earnings recognized are \$86,172 less than previous year.
- State on-behalf payments were \$198,488 greater in 2009 than in 2008.
- Local tax revenue, including utility tax, increased \$85,781 from the prior year.
- SEEK program funding increased \$180,164.
- Expenditure increases reflect personnel cost of living salary increases.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$651,445 in contingency (4.32%).

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 663-3300.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF NET ASSETSAt June 30, 2009

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| Assets: | | | |
| - Current Assets - | | | |
| Cash and cash equivalents | 928,630 | 46,201 | 974,831 |
| Investments | 237,274 | - | 237,274 |
| Accounts receivable: | | | |
| Taxes - current | 81,965 | - | 81,965 |
| Taxes - delinquent | 21,544 | - | 21,544 |
| Other | 31,225 | - | 31,225 |
| Intergovernmental - State | 71,216 | - | 71,216 |
| Intergovernmental - indirect Federal | 381,126 | 140,595 | 521,721 |
| Inventories | - | 33,410 | 33,410 |
| <u>Total current assets</u> | <u>1,752,980</u> | <u>220,206</u> | <u>1,973,186</u> |
| - Noncurrent Assets - | | | |
| Capital assets | 30,896,160 | 438,959 | 31,335,119 |
| Less: accumulated depreciation | <u>(13,603,764)</u> | <u>(366,248)</u> | <u>(13,970,012)</u> |
| <u>Total noncurrent assets</u> | <u>17,292,396</u> | <u>72,711</u> | <u>17,365,107</u> |
| <u>Total assets</u> | <u>19,045,376</u> | <u>292,917</u> | <u>19,338,293</u> |
| Liabilities: | | | |
| - Current liabilities - | | | |
| Accounts payable | 238,667 | 54 | 238,721 |
| Current portion of accumulated sick leave | 39,013 | - | 39,013 |
| Deferred revenues | 82,190 | - | 82,190 |
| Current portion of bond/lease obligations | 804,476 | - | 804,476 |
| Interest payable | <u>469,620</u> | <u>-</u> | <u>469,620</u> |
| Total current liabilities | <u>1,633,966</u> | <u>54</u> | <u>1,634,020</u> |
| - Noncurrent liabilities - | | | |
| Noncurrent portion of long-term debt | 10,982,033 | - | 10,982,033 |
| Noncurrent portion of accrued sick leave | <u>66,115</u> | <u>-</u> | <u>66,115</u> |
| Total noncurrent liabilities | <u>11,048,148</u> | <u>-</u> | <u>11,048,148</u> |
| Total liabilities | <u>12,682,114</u> | <u>54</u> | <u>12,682,168</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 5,097,438 | 72,711 | 5,170,149 |
| Restricted for: | | | |
| Capital projects | 8,917 | - | 8,917 |
| Other | 125,215 | 33,410 | 158,625 |
| Unrestricted | <u>1,131,692</u> | <u>186,742</u> | <u>1,318,434</u> |
| Total net assets | <u>6,363,262</u> | <u>292,863</u> | <u>6,656,125</u> |
| Total liabilities and net assets | <u>19,045,376</u> | <u>292,917</u> | <u>19,338,293</u> |

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2009

| | <u>Expenses</u> | <u>Program Revenues</u> | | |
|--|-------------------|-------------------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants & Contributions</u> | <u>Capital Grants & Contributions</u> |
| FUNCTIONS/PROGRAMS: | | | | |
| - Governmental Activities - | | | | |
| Instruction | 14,428,404 | - | 4,854,429 | - |
| Support services: | | | | |
| Student | 564,752 | - | 187,386 | - |
| Instructional staff | 1,216,931 | - | 907,139 | - |
| District administration | 1,185,485 | - | 292,874 | - |
| School administration | 1,310,756 | - | 246,907 | - |
| Business support | 129,984 | - | 13,651 | - |
| Plant operation & management | 1,870,994 | - | 88,961 | - |
| Student transportation | 1,022,505 | - | 172,668 | - |
| Community services operations | 300,694 | - | 325,746 | - |
| Interest on long-term debt | 469,620 | - | - | - |
| <u>Total governmental activities</u> | <u>22,500,125</u> | <u>-</u> | <u>7,089,761</u> | <u>-</u> |
| - Business-type Activities - | | | | |
| Food service | 1,355,211 | 343,790 | 983,211 | - |
| <u>Total business-type activities</u> | <u>1,355,211</u> | <u>343,790</u> | <u>983,211</u> | <u>-</u> |
| <u>Total primary government</u> | <u>23,855,336</u> | <u>343,790</u> | <u>8,072,972</u> | <u>-</u> |

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIES (continued)For the Year Ended June 30, 2009

| | <u>Net (Expense) Revenue and Changes in Net Assets</u> | | |
|--------------------------------------|--|-----------------------|-------------------------|
| | <u>Governmental</u> | <u>Business-</u> | |
| | <u>Activities</u> | <u>Type</u> | <u>Total</u> |
| | | <u>Activities</u> | |
| | (9,573,975) | - | (9,573,975) |
| | (377,366) | - | (377,366) |
| | (309,792) | - | (309,792) |
| | (892,611) | - | (892,611) |
| | (1,063,849) | - | (1,063,849) |
| | (116,333) | - | (116,333) |
| | (1,782,033) | - | (1,782,033) |
| | (849,837) | - | (849,837) |
| | 25,052 | - | 25,052 |
| | <u>(469,620)</u> | <u>-</u> | <u>(469,620)</u> |
| | <u>(15,410,364)</u> | <u>-</u> | <u>(15,410,364)</u> |
| | <u>-</u> | <u>(28,210)</u> | <u>(28,210)</u> |
| | <u>-</u> | <u>(28,210)</u> | <u>(28,210)</u> |
| | <u>(15,410,364)</u> | <u>(28,210)</u> | <u>(15,438,574)</u> |
| General revenues: | | | |
| Taxes | 2,388,998 | - | 2,388,998 |
| Investment earnings | 51,599 | 2,957 | 54,556 |
| State and formula grants | 12,690,192 | - | 12,690,192 |
| Miscellaneous | <u>50,978</u> | <u>123</u> | <u>51,101</u> |
| <u>Total general revenues</u> | <u>15,181,767</u> | <u>3,080</u> | <u>15,184,847</u> |
| Change in net assets | (228,597) | (25,130) | (253,727) |
| Net assets - beginning | <u>6,591,859</u> | <u>317,993</u> | <u>6,909,852</u> |
| Net assets - ending | <u><u>6,363,262</u></u> | <u><u>292,863</u></u> | <u><u>6,656,125</u></u> |

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2009

| | <u>General</u> <u>Fund</u> | <u>Special</u> <u>Revenue</u> | <u>Other</u> <u>Gov't</u> <u>Funds</u> | <u>Total</u> <u>Gov't</u> <u>Funds</u> |
|--|-------------------------------|----------------------------------|--|--|
| Assets and resources: | | | | |
| Cash and cash equivalents | 1,125,723 | - | 169,737 | 1,295,460 |
| Investments | 237,274 | - | - | 237,274 |
| Accounts receivable: | | | | |
| Taxes - current | 81,965 | - | - | 81,965 |
| Taxes - delinquent | 21,544 | - | - | 21,544 |
| Other | 31,225 | - | - | 31,225 |
| Intergovernmental - State | - | 71,216 | - | 71,216 |
| Intergovernmental - Indirect Federal | - | <u>381,126</u> | - | <u>381,126</u> |
| <u>Total assets and resources</u> | <u>1,497,731</u> | <u>452,342</u> | <u>169,737</u> | <u>2,119,810</u> |
| Liabilities and fund balances: | | | | |
| Cash deficit | - | 366,830 | - | 366,830 |
| Accounts payable | 235,345 | 3,322 | - | 238,667 |
| Current portion of accumulated sick leave | 39,013 | - | - | 39,013 |
| Deferred revenue | - | <u>82,190</u> | - | <u>82,190</u> |
| <u>Total liabilities</u> | <u>274,358</u> | <u>452,342</u> | <u>-</u> | <u>726,700</u> |
| Fund balances | | | | |
| Reserved for sick leave | 66,115 | - | - | 66,115 |
| Reserved for site based carryforward | 58,099 | - | - | 58,099 |
| Reserved for KFSCC escrow | - | - | 1,001 | 1,001 |
| Reserved for future construction | - | - | 8,917 | 8,917 |
| Undesignated fund balance | <u>1,099,159</u> | <u>-</u> | <u>159,819</u> | <u>1,258,978</u> |
| <u>Total fund balances</u> | <u>1,223,373</u> | <u>-</u> | <u>169,737</u> | <u>1,393,110</u> |
| <u>Total liabilities and fund balances</u> | <u>1,497,731</u> | <u>452,342</u> | <u>169,737</u> | <u>2,119,810</u> |

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETSAt June 30, 2009

| | |
|--|-----------|
| Total fund balance per fund financial statements | 1,393,110 |
|--|-----------|

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|--|------------|
| Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net assets | 17,292,396 |
|--|------------|

| | |
|---|---------------------|
| Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave and accrued interest) are not reported in this fund financial statement because they are not due and payable, but are presented in the statement of net assets. | <u>(12,322,244)</u> |
|---|---------------------|

| | |
|--|-------------------------|
| Net assets for governmental activities | <u><u>6,363,262</u></u> |
|--|-------------------------|

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDSFor the Year Ended June 30, 2009

| | <u>General Fund</u> | <u>Special Revenue</u> | <u>Other Gov't Funds</u> | <u>Total Gov't Funds</u> |
|---|--------------------------|----------------------------|------------------------------|------------------------------|
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | 2,144,856 | - | 244,142 | 2,388,998 |
| Earnings on investments | 49,784 | 1,815 | - | 51,599 |
| Other local revenue | 19,247 | 31,731 | - | 50,978 |
| Intergovernmental - state | 11,704,539 | 1,215,350 | 1,109,835 | 14,029,724 |
| On-behalf payments | 3,299,212 | - | - | 3,299,212 |
| Intergovernmental - indirect federal | - | 2,451,017 | - | 2,451,017 |
| <u>Total revenues</u> | <u>17,217,638</u> | <u>3,699,913</u> | <u>1,353,977</u> | <u>22,271,528</u> |
| Expenditures: | | | | |
| Instructional | 11,365,882 | 2,370,744 | - | 13,736,626 |
| Student support services | 488,559 | 75,406 | - | 563,965 |
| Staff support services | 618,968 | 714,012 | - | 1,332,980 |
| District administration | 1,037,579 | 133,809 | - | 1,171,388 |
| School administration | 1,203,167 | 106,418 | - | 1,309,585 |
| Business support | 126,853 | - | - | 126,853 |
| Plant operations and management | 1,749,715 | - | 110,753 | 1,860,468 |
| Student transportation | 781,924 | 89,466 | - | 871,390 |
| Community service activities | - | 300,694 | - | 300,694 |
| Building renovations and additions | - | - | 1,217,681 | 1,217,681 |
| Debt service: | | | | |
| Principal | - | - | 746,267 | 746,267 |
| Interest | - | - | 476,057 | 476,057 |
| <u>Total expenditures</u> | <u>17,372,647</u> | <u>3,790,549</u> | <u>2,550,758</u> | <u>23,713,954</u> |
| Excess (deficit) of revenues over expenditures | <u>(155,009)</u> | <u>(90,636)</u> | <u>(1,196,781)</u> | <u>(1,442,426)</u> |
| Other financing sources (uses): | | | | |
| Bond proceeds | - | - | 1,275,000 | 1,275,000 |
| Operating transfers in | - | 90,636 | 982,272 | 1,072,908 |
| Operating transfers out | <u>(172,236)</u> | <u>-</u> | <u>(900,672)</u> | <u>(1,072,908)</u> |
| <u>Total other financing sources (uses)</u> | <u>(172,236)</u> | <u>90,636</u> | <u>1,356,600</u> | <u>1,275,000</u> |
| Excess (deficit) of revenue and other financing sources over expenditures/other financing uses | <u>(327,245)</u> | <u>-</u> | <u>159,819</u> | <u>(167,426)</u> |
| Fund balance - July 1, 2008 | <u>1,550,618</u> | <u>-</u> | <u>9,918</u> | <u>1,560,536</u> |
| Fund balance - June 30, 2009 | <u>1,223,373</u> | <u>-</u> | <u>169,737</u> | <u>1,393,110</u> |

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2009

| | |
|---|-----------|
| Net change in total fund balances per fund financial statements | (167,426) |
|---|-----------|

Amounts reported for governmental activities in the statement of activities differences:

| | |
|---|---------|
| Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but are presented as assets in the statement of activities and depreciated over their estimated useful economic lives. Retirement of assets reflect gain or loss on prior depreciation in the statement of activities. The net difference is the amount of depreciation and gain/loss in excess of capital outlay expenditures. | 461,125 |
|---|---------|

| | |
|--|-------|
| Interest expense on long-term debt is recognized in the fund financial statements when paid and accrued in the government wide financial statements of activities. | 6,437 |
|--|-------|

| | |
|---|-------------|
| Bond proceeds received in current year were considered as an obligation in the prior period government-wide financial statements. | (1,275,000) |
|---|-------------|

| | |
|--|----------------|
| Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets. | <u>746,267</u> |
|--|----------------|

| | |
|---|------------------|
| Change in net assets of governmental activities | <u>(228,597)</u> |
|---|------------------|

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2009

| | <u>Budgeted Amounts</u> | | | <u>Variance</u> |
|---|-------------------------|--------------------|-------------------|------------------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Favorable (Unfavorable)</u> |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | 1,875,000 | 1,912,418 | 2,144,856 | 232,438 |
| Earnings on investments | 163,692 | 134,000 | 49,784 | (84,216) |
| Other local revenue | 16,500 | 15,000 | 19,247 | 4,247 |
| Intergovernmental - state | 11,863,735 | 11,692,539 | 11,704,539 | 12,000 |
| Revenue for on behalf payments | - | - | 3,299,212 | 3,299,212 |
| <u>Total revenues</u> | <u>13,918,927</u> | <u>13,753,957</u> | <u>17,217,638</u> | <u>3,463,681</u> |
| Expenditures: | | | | |
| Instructional | 8,852,684 | 8,878,269 | 11,365,882 | (2,487,613) |
| Student support services | 458,066 | 463,462 | 488,559 | (25,097) |
| Staff support services | 482,322 | 489,475 | 618,968 | (129,493) |
| District administration | 891,099 | 845,315 | 1,037,579 | (192,264) |
| School administration | 1,057,931 | 1,023,766 | 1,203,167 | (179,401) |
| Business support | 124,741 | 113,140 | 126,853 | (13,713) |
| Plant operations and management | 1,471,424 | 1,624,942 | 1,749,715 | (124,773) |
| Student transportation | 796,660 | 989,378 | 781,924 | 207,454 |
| Contingencies | 500,000 | 651,445 | - | 651,445 |
| <u>Total expenditures</u> | <u>14,634,927</u> | <u>15,079,192</u> | <u>17,372,647</u> | <u>(2,293,455)</u> |
| Excess (deficit) of revenues over expenditures | <u>(716,000)</u> | <u>(1,325,235)</u> | <u>(155,009)</u> | <u>1,170,226</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers out | <u>(184,000)</u> | <u>(159,267)</u> | <u>(172,236)</u> | <u>(12,969)</u> |
| <u>Total other financing sources (uses)</u> | <u>(184,000)</u> | <u>(159,267)</u> | <u>(172,236)</u> | <u>(12,969)</u> |
| Excess (deficit) of revenue and other financing sources over expenditures/other financing uses | <u>(900,000)</u> | <u>(1,484,502)</u> | <u>(327,245)</u> | <u>1,157,257</u> |
| Fund balance - July 1, 2008 | <u>900,000</u> | <u>1,484,502</u> | <u>1,484,502</u> | <u>-</u> |
| Fund balance - June 30, 2009 | <u>-</u> | <u>-</u> | <u>1,157,257</u> | <u>1,157,257</u> |

Note - Revenue and expense related to state on-behalf payments are not budgeted.

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2009

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|-------------------------|------------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| From local sources: | | | | |
| Earnings on investments | 6,000 | 1,815 | 1,815 | - |
| Miscellaneous revenue | - | 15,532 | 31,731 | 16,199 |
| Intergovernmental - state | 942,082 | 1,066,555 | 1,215,350 | 148,795 |
| Intergovernmental - indirect federal | <u>2,332,775</u> | <u>3,501,985</u> | <u>2,451,017</u> | <u>(1,050,968)</u> |
| <u>Total revenues</u> | <u>3,280,857</u> | <u>4,585,887</u> | <u>3,699,913</u> | <u>(885,974)</u> |
| Expenditures: | | | | |
| Instructional | 2,150,218 | 3,305,146 | 2,370,744 | 934,402 |
| Student support services | 10,141 | 24,924 | 75,406 | (50,482) |
| Staff support services | 649,992 | 743,116 | 714,012 | 29,104 |
| District administration | 134,965 | 138,960 | 133,809 | 5,151 |
| School administration | 108,217 | 98,762 | 106,418 | (7,656) |
| Student transportation | 23,404 | 62,049 | 89,466 | (27,417) |
| Community service activities | <u>304,920</u> | <u>303,566</u> | <u>300,694</u> | <u>2,872</u> |
| <u>Total expenditures</u> | <u>3,381,857</u> | <u>4,676,523</u> | <u>3,790,549</u> | <u>885,974</u> |
| Excess (deficit) of revenues over expenditures | <u>(101,000)</u> | <u>(90,636)</u> | <u>(90,636)</u> | <u>-</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | 101,000 | 90,636 | 90,636 | - |
| Operating transfers out | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>Total other financing sources (uses)</u> | <u>101,000</u> | <u>90,636</u> | <u>90,636</u> | <u>-</u> |
| Excess (deficit) of revenue and other financing sources over expenditures/other financing uses | - | - | - | - |
| Fund balance - July 1, 2008 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance - June 30, 2009 | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> |

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF NET ASSETS – PROPRIETARY FUNDAt June 30, 2009

| | <u>Food Service Fund</u> |
|---|------------------------------|
| Assets: | |
| - Current Assets - | |
| Cash and cash equivalents | 46,201 |
| Accounts receivable: | |
| Intergovernmental - indirect Federal | 140,595 |
| Inventories | <u>33,410</u> |
| <u>Total current assets</u> | <u>220,206</u> |
| - Noncurrent Assets - | |
| Capital assets | 438,959 |
| Less: accumulated depreciation | <u>(366,248)</u> |
| <u>Total noncurrent assets</u> | <u>72,711</u> |
| <u>Total assets</u> | <u><u>292,917</u></u> |
| Liabilities: | |
| - Current Liabilities - | |
| Accounts payable | <u>54</u> |
| <u>Total current liabilities</u> | <u>54</u> |
| Net assets: | |
| Investments in capital assets | 72,711 |
| Reserve for inventories | 33,410 |
| Unreserved | <u>186,742</u> |
| <u>Total net assets</u> | <u>292,863</u> |
| <u>Total liabilities and net assets</u> | <u><u>292,917</u></u> |

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – PROPRIETARY FUNDFor the Year Ended June 30, 2009

| | <u>Fund</u> |
|---|-----------------------|
| Operating revenues: | |
| Lunchroom sales | 343,790 |
| Other local revenue | <u>123</u> |
| <u>Total operating revenues</u> | <u>343,913</u> |
| Operating expense: | |
| Salaries and wages | 648,423 |
| Contract services | 32,691 |
| Materials and supplies | 657,924 |
| Depreciation | 15,104 |
| Other operating expenses | <u>1,069</u> |
| <u>Total operating expenses</u> | <u>1,355,211</u> |
| <u>Operating income (loss)</u> | <u>(1,011,298)</u> |
| Nonoperating Revenue/(Expense): | |
| Federal grants | 880,842 |
| State grants | 13,285 |
| State on-behalf payments | 89,084 |
| Interest income | <u>2,957</u> |
| <u>Total nonoperating revenue/(expense)</u> | <u>986,168</u> |
| <u>Net income (loss)</u> | <u>(25,130)</u> |
| Net assets, July 1, 2008 | <u>317,993</u> |
| Net assets, June 30, 2009 | <u><u>292,863</u></u> |

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

For the Year Ended June 30, 2009

| | <u>Food service Fund</u> |
|---|------------------------------|
| Cash flows from operating activities: | |
| Cash received from: | |
| Lunchroom sales | 343,790 |
| Other operating revenue | 123 |
| Cash paid to/for: | |
| Employees | (648,423) |
| Supplies/Contractual | (684,525) |
| Other activities | <u>(1,069)</u> |
| <u>Net cash provided by operating activities</u> | <u>(990,104)</u> |
| Cash flows from capital and related financing activities: | |
| Purchases of capital assets | <u>(4,142)</u> |
| Cash flows from investing activities: | |
| Interest income | <u>2,957</u> |
| Cash flows from financing activities: | |
| Federal grants | 826,812 |
| State grants & on-behalf payments | <u>102,369</u> |
| <u>Total cash flows from financing activities</u> | <u>929,181</u> |
| Net increase (decrease) in cash | (62,108) |
| Cash, beginning of year | <u>108,309</u> |
| Cash, end of year | <u><u>46,201</u></u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operations: | |
| Operating income (loss) | (1,011,298) |
| Adjustments to reconcile operating income to cash provided (used) by operating activities: | |
| Depreciation | 15,104 |
| Changes in current assets/liabilities: | |
| Inventory | 6,036 |
| Accounts payable | <u>54</u> |
| Net cash provided by operating activities | <u><u>(990,104)</u></u> |

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

At June 30, 2009

| | <u>Activity Funds</u> | <u>Scholarship Fund</u> | <u>Total</u> |
|--|---------------------------|-----------------------------|--------------------|
| Assets: | | | |
| Cash and cash equivalents | 236,787 | 180,641 | 417,428 |
| Accounts receivable | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>Total assets</u> | <u>236,787</u> | <u>180,641</u> | <u>417,428</u> |
| Liabilities: | | | |
| Accounts payable | 1,216 | - | 1,216 |
| Due to individual student activity account funds | <u>235,571</u> | <u>-</u> | <u>235,571</u> |
| <u>Total liabilities</u> | <u>236,787</u> | <u>-</u> | <u>236,787</u> |
| Net assets: | | | |
| Permanently restricted | - | 167,803 | 167,803 |
| Reserve for scholarships | <u>-</u> | <u>12,838</u> | <u>12,838</u> |
| <u>Total net assets</u> | <u>-</u> | <u>180,641</u> | <u>180,641</u> |
| <u>Total liabilities and net assets</u> | <u>236,787</u> | <u>180,641</u> | <u>417,428</u> |

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2009

| | <u>Scholarship Fund</u> |
|-------------------------------|-----------------------------|
| Additions: | |
| Interest Income | 7,540 |
| Deductions: | |
| Scholarship payments | <u>6,000</u> |
| Change in net assets | 1,540 |
| Net assets, beginning of year | <u>179,101</u> |
| Net assets, end of year | <u><u>180,641</u></u> |

See notes to financial statements.

POWELL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2009

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Powell County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Powell County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Powell County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Powell County School District Finance Corporation – The Powell County, Kentucky, Board of Education resolved to authorize the establishment of the Powell County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Powell County Board of Education also comprise the Corporations’ Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The proprietary funds are accounted for using GASB standards as well as standards issued by the FASB through November 1989 and that do not conflict with GASB Standards. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Accounting Procedures for Kentucky School Activity Funds.

The Herbert and Hattie Profitt scholarship fund is a permanent type endowment fund. The interest earned is used for scholarships to Powell County High School students.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements,

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting (continued)

in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2009, to finance the General Fund operations were \$.313 per \$100 valuation for real property, \$.313 per \$100 valuation for business personal property and \$.502 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|----------------------------|--|
| Buildings and improvements | 25-50 years |
| Land improvements | 20 years |
| Technology equipment | 5 years |
| Vehicles | 5-10 years |
| Audio-visual equipment | 15 years |
| Food service equipment | 10-12 years |
| Furniture and fixtures | 7 years |

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past five years' experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2009.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The District has set aside a board approved reserve in the amount of \$66,115 for accumulated sick leave.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with and original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District's cash and cash equivalents was \$2,476,377 and the book balance was \$1,629,533. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). At June 30, 2009 the District's cash and cash equivalents were insured by FDIC in the amount of \$250,000. The balance of cash was collateralized with securities held in the financial institution's name and pledged to the District. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a local financial institution. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

NOTE C – CASH AND CASH EQUIVALENTS (continued)

The funds of the District are deposited and invested under the terms of a contract, contents of which are set out in the bond of depositors for public school funds. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash and cash equivalents at June 30, 2009 consisted of the following:

| | <u>Book Balance</u> | <u>Bank Balance</u> |
|--------------------------------------|-------------------------|-------------------------|
| <u>Whitaker Bank:</u> | | |
| General Checking Account | 987,669 | 1,816,944 |
| MMDA Account | 237,274 | 237,274 |
| Certificate of Deposit | 167,803 | 167,803 |
| Bowen Elementary Activity | 32,021 | 32,021 |
| Clay City Elementary Activity | 24,781 | 24,864 |
| Powell County High School Activity | 116,342 | 129,745 |
| Powell County Middle School Activity | 45,469 | 47,551 |
| Stanton Elementary Activity | 18,174 | 20,175 |
| | <u>1,629,533</u> | <u>2,476,377</u> |
| <u>Total</u> | | |

The MMDA Account is listed as "investments" on the MUNIS annual financial report.

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The original amount of each issue, the issue date and interest rates are summarized as follows:

| <u>Issue Date</u> | <u>Original Proceeds</u> | <u>Rates</u> |
|----------------------|------------------------------|---------------|
| Refunding Issue 1997 | 1,500,000 | 4.25% - 4.70% |
| Refunding Issue 1998 | 1,345,000 | 3.90% - 4.25% |
| August 2000 | 107,000 | 4.90% - 5.85% |
| September 2001 | 4,430,000 | 2.70% - 4.75% |
| Refunding Issue 2002 | 2,465,000 | 2.50% - 3.90% |
| August 2006 | 3,290,000 | 3.65% - 4.20% |
| 2nd Series of 2008 | 1,275,000 | 3.35% - 4.40% |
| KISTA 2008 Series | 601,776 | 2.40% - 4.00% |

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Powell County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2009, for debt service (principal and interest) are as follows:

| <u>Year</u> | <u>Powell County School District</u> | | <u>Kentucky School Facilities Construction Commission</u> | | <u>Total</u> |
|---------------|--------------------------------------|------------------|---|-----------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2009 - 10 | 560,055 | 371,537 | 244,421 | 98,083 | 1,274,096 |
| 2010 - 11 | 568,299 | 350,116 | 127,222 | 90,675 | 1,136,312 |
| 2011 - 12 | 592,769 | 329,527 | 120,543 | 85,910 | 1,128,749 |
| 2012 - 13 | 614,727 | 307,522 | 125,376 | 81,051 | 1,128,676 |
| 2013 - 14 | 636,356 | 283,952 | 130,538 | 75,910 | 1,126,756 |
| Thereafter | <u>6,342,603</u> | <u>1,559,325</u> | <u>1,723,600</u> | <u>451,815</u> | <u>10,077,343</u> |
| <u>Totals</u> | <u>9,314,809</u> | <u>3,201,979</u> | <u>2,471,700</u> | <u>883,444</u> | <u>15,871,932</u> |

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Following are changes in long-term debt:

| | <u>Balance</u> <u>July 1, 2008</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>June 30, 2009</u> |
|-----------------------|---------------------------------------|------------------|-------------------|--|
| 1997 Refunding Series | 495,000 | - | (240,000) | 255,000 |
| 1998 Refunding Series | 535,000 | - | (260,000) | 275,000 |
| 2000 Series | 76,000 | - | (5,000) | 71,000 |
| 2001 Series | 4,180,000 | - | (40,000) | 4,140,000 |
| 2002 Refunding Series | 2,140,000 | - | (70,000) | 2,070,000 |
| 2006 Series | 3,230,000 | - | (65,000) | 3,165,000 |
| 2008 2nd Series | 1,275,000 | - | - | 1,275,000 |
| 2008 KISTA | <u>601,776</u> | <u>-</u> | <u>(66,267)</u> | <u>535,509</u> |
| <u>Total</u> | <u>12,532,776</u> | <u>-</u> | <u>(746,267)</u> | <u>11,786,509</u> |

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009 was as follows:

| | <u>Balance</u> <u>July 1, 2008</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2009</u> |
|----------------------------------|---------------------------------------|------------------|-------------------|--|
| <u>Governmental Activities</u> | | | | |
| Land | 370,539 | - | - | 370,539 |
| Land improvements | 1,067,294 | - | - | 1,067,294 |
| Buildings and improvements | 22,426,132 | 1,222,654 | - | 23,648,786 |
| Technology equipment | 2,455,806 | 399,480 | 245,456 | 2,609,830 |
| Vehicles | 2,550,375 | - | 98,132 | 2,452,243 |
| General equipment | 758,210 | - | 10,742 | 747,468 |
| Construction work in progress | <u>1,275,000</u> | <u>-</u> | <u>1,275,000</u> | <u>-</u> |
| <u>Totals at historical cost</u> | <u>30,903,356</u> | <u>1,622,134</u> | <u>1,629,330</u> | <u>30,896,160</u> |
| Less: accumulated depreciation | | | | |
| Land improvements | 853,738 | 50,158 | - | 903,896 |
| Buildings and improvements | 8,065,515 | 522,292 | - | 8,587,807 |

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE E – CAPITAL ASSETS (continued)

| | Balance <u>July 1, 2008</u> | <u>Additions</u> | <u>Deductions</u> | Balance <u>June 30, 2009</u> |
|---|--------------------------------|------------------|-------------------|---------------------------------|
| <u>Governmental Activities</u> | | | | |
| Technology equipment | 1,791,436 | 258,543 | 88,870 | 1,961,109 |
| Vehicles | 1,528,559 | 145,256 | 98,132 | 1,575,683 |
| General equipment | <u>557,837</u> | <u>17,432</u> | <u>-</u> | <u>575,269</u> |
| <u>Total accumulated depreciation</u> | <u>12,797,085</u> | <u>993,681</u> | <u>187,002</u> | <u>13,603,764</u> |
| Governmental Activities <u>Capital Assets - Net</u> | <u>18,106,271</u> | <u>628,453</u> | <u>1,442,328</u> | <u>17,292,396</u> |
| <u>Business-Type Activities</u> | | | | |
| Food service and equipment | 430,851 | 4,142 | - | 434,993 |
| Technology equipment | <u>3,966</u> | <u>-</u> | <u>-</u> | <u>3,966</u> |
| <u>Totals at historical cost</u> | <u>434,817</u> | <u>4,142</u> | <u>-</u> | <u>438,959</u> |
| Less: accumulated depreciation | | | | |
| Food service and equipment | 350,403 | 14,311 | - | 364,714 |
| Technology equipment | <u>741</u> | <u>793</u> | <u>-</u> | <u>1,534</u> |
| <u>Total accumulated depreciation</u> | <u>351,144</u> | <u>15,104</u> | <u>-</u> | <u>366,248</u> |
| Business-Type Activities <u>Capital Assets - Net</u> | <u>83,673</u> | <u>(10,962)</u> | <u>-</u> | <u>72,711</u> |

Depreciation expense was allocated to governmental functions as follows:

| | |
|--|----------------|
| Instructional | 810,341 |
| Student support service | 787 |
| Instructional staff support | 2,513 |
| District administration | 14,097 |
| School administration | 1,171 |
| Plant operations and management | 10,526 |
| Student transportation | 151,115 |
| Central office support | <u>3,131</u> |
| Total depreciation expense - Government functions | <u>993,681</u> |

POWELL COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements provided by the District for equipment provide the minimum future rental payments as of June 30, 2009, as follows:

| | |
|----------------|---------------|
| 2009 - 10 | 34,240 |
| 2010 - 11 | 18,688 |
| 2011 - 12 | 12,050 |
| 2012 - 13 | 12,447 |
| and thereafter | <u>-</u> |
| <u>Total</u> | <u>77,425</u> |

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

Pension Plan

Plan Description – The Powell County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS and 10.855% if hired on or after July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions based on the hire date of the employee.

Medical Insurance Plan

Plan Description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical insurance benefits is a cost-sharing

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE G – RETIREMENT PLANS (continued)

multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding Policy – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Powell County School District's total payroll for the year was \$13,970,877. The payroll for employees covered under KTRS was \$10,510,645. For the year ended June 30, 2009, the Commonwealth contributed \$1,240,995 to KTRS for the benefit of the District's participating employees. The School District's contributions to KTRS for the year ending June 30, 2009 were \$136,425, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a district contribution of 13.5% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$3,142,244.

The contribution requirement for CERS for the year ended June 30, 2009 was \$581,641, which consisted of \$424,199 from the District and \$157,442 from the employees.

Following is a summary of contributions paid by the District on-behalf of the employees for the past three years:

| Year Ended <u>June 30.</u> | <u>Teacher's Retirement</u> | | <u>County Retirement</u> |
|-------------------------------|-----------------------------|--------------|------------------------------|
| | <u>District</u> | <u>State</u> | |
| 2009 | 125,154 | 1,259,328 | 424,199 |
| 2008 | 136,425 | 1,240,995 | 451,691 |
| 2007 | 139,061 | 1,125,878 | 397,736 |

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE G – RETIREMENT PLANS (continued)

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans’ status as a whole, derived from actuarial valuations performed as of the dates indicated:

| | KTRS as of June 30, 2008 (in millions of dollars) | CERS as of June 30, 2008 (in millions of dollars) |
|--|---|---|
| Actuarial accrued liabilities | 22,460.3 | 9,707.3 |
| Actuarial value of assets | <u>15,321.3</u> | <u>7,482.4</u> |
| Unfunded (overfunded) actuarial accrued liabilities | <u>7,139.0</u> | <u>2,224.9</u> |

Historical trend information showing KTRS’s and CERS’s progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2008 comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board’s portion of the unfunded past service cost or the vested benefits of the Board’s portion of the plan assets.

NOTE H – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor’s review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's compensation, errors and omissions, educator's legal liability, property (other than vehicles) and general liability, the District participates in the Kentucky School Board Insurance Trust Liability Fund. These public entity risk pools operate as common risk management and insurance programs for school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims, experience modifications and a group discount amount.

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING/FUND BALANCES

The following funds had deficit balances at June 30, 2009:

None

The following funds had expenditures in excess of revenues at June 30, 2009:

| | |
|---|---------|
| General Fund | 155,009 |
| School Food Service Fund | 25,130 |
| Powell County Middle School Activity Fund | 5,118 |
| Bowen Elementary Activity Fund | 12,779 |

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

| <u>From Fund</u> | <u>To Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|------------------|----------------------|--------------------------------|---------------|
| Capital Outlay | Debt Service | Bond principal and interest | 8,308 |
| FSPK | Debt Service | Bond principal and interest | 789,864 |
| General Fund | Debt Service | Bond principal and interest | 81,600 |
| General Fund | Special Revenue Fund | Local technology match | 42,000 |
| General Fund | Special Revenue Fund | KETS match first offer | 24,926 |
| General Fund | Special Revenue Fund | KETS match second offer | 22,710 |
| General Fund | Special Revenue Fund | Education foundation match | 1,000 |
| Capital Outlay | Construction Fund | Transfer of unrestricted funds | 102,500 |

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2009 were as follows:

None

NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2009, fund balances/retained earnings originally reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

| | <u>General Fund</u> | <u>Special Revenue Funds</u> | <u>Capital Projects Funds</u> | <u>Food Service Fund</u> | <u>Trust Fund</u> |
|--|-------------------------|--------------------------------------|---------------------------------------|----------------------------------|-----------------------|
| Fund Balance/Retained Earnings as originally reported to the Department of Education | 1,189,669 | - | 169,737 | 217,591 | 180,641 |
| Adjustment to Fund Balance/Retained Earnings | | | | | |
| (1) To record additional accounts receivable | 24,527 | - | - | 8,597 | - |
| (2) To adjust accounts payable | 9,177 | - | - | - | - |
| (3) To record net fixed assets | - | - | - | 72,711 | - |
| (4) To adjust inventory | - | - | - | (6,036) | - |
| Fund Balance/Retained Earnings per fund financial statements at June 30, 2009 | <u>1,223,373</u> | <u>-</u> | <u>169,737</u> | <u>292,863</u> | <u>180,641</u> |

POWELL COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE Q – ON-BEHALF PAYMENTS

The following payments made by the state on behalf of employees of the District and for the benefit of the District are recognized in the government-wide financial statements as additional revenue and expenditures for the year ended June 30, 2009:

| | |
|--------------------------------------|------------------|
| Kentucky Teacher's Retirement System | 1,259,328 |
| Health Insurance | 2,126,441 |
| Life Insurance | 8,656 |
| Administrative Fees | 23,238 |
| Flexible Plans | 171,676 |
| Less: Federal Reimbursements | <u>(201,043)</u> |
| <u>Total</u> | <u>3,388,296</u> |
| Allocated to: | |
| General Fund | 3,299,212 |
| School Food Service Fund | <u>89,084</u> |
| <u>Total</u> | <u>3,388,296</u> |

POWELL COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

At June 30, 2009

| | <u>SEEK Capital Outlay Fund</u> | <u>Building Fund</u> | <u>Construction Fund</u> | <u>Debt Service Funds</u> | <u>Total</u> |
|--|-------------------------------------|--------------------------|------------------------------|-------------------------------|-----------------------|
| Asset and resources: | | | | | |
| Cash and cash equivalents | <u>-</u> | <u>1,001</u> | <u>168,736</u> | <u>-</u> | <u>169,737</u> |
| Liabilities and fund balances: | | | | | |
| - Liabilities - | | | | | |
| Accounts payable | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| - Fund balances - | | | | | |
| Restricted for KFSCC escrow | <u>-</u> | <u>1,001</u> | <u>-</u> | <u>-</u> | <u>1,001</u> |
| Restricted - future construction | <u>-</u> | <u>-</u> | <u>8,917</u> | <u>-</u> | <u>8,917</u> |
| Unreserved fund balance | <u>-</u> | <u>-</u> | <u>159,819</u> | <u>-</u> | <u>159,819</u> |
| Total fund balances | <u>-</u> | <u>1,001</u> | <u>168,736</u> | <u>-</u> | <u>169,737</u> |
| Total liabilities and fund balances | <u><u>-</u></u> | <u><u>1,001</u></u> | <u><u>168,736</u></u> | <u><u>-</u></u> | <u><u>169,737</u></u> |

POWELL COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2009

| | SEEK Capital Outlay Fund | Building Fund | Construction Fund | Debt Service Funds | Total |
|--|--------------------------------|------------------|----------------------|-----------------------|--------------------|
| Revenues: | | | | | |
| From local sources: | | | | | |
| General real property tax | - | 244,142 | - | - | 244,142 |
| Intergovernmental - State | 221,561 | 545,722 | - | 342,552 | 1,109,835 |
| <u>Total revenues</u> | <u>221,561</u> | <u>789,864</u> | <u>-</u> | <u>342,552</u> | <u>1,353,977</u> |
| Expenditures: | | | | | |
| Plant operations and management | 110,753 | - | - | - | 110,753 |
| Building renovations and additions | - | - | 1,217,681 | - | 1,217,681 |
| Debt service | - | - | - | 1,222,324 | 1,222,324 |
| <u>Total expenditures</u> | <u>110,753</u> | <u>-</u> | <u>1,217,681</u> | <u>1,222,324</u> | <u>2,550,758</u> |
| Excess (deficit) of revenues over expenditures | <u>110,808</u> | <u>789,864</u> | <u>(1,217,681)</u> | <u>(879,772)</u> | <u>(1,196,781)</u> |
| Other financing sources (uses): | | | | | |
| Bond proceeds | - | - | 1,275,000 | - | 1,275,000 |
| Operating transfers in | - | - | 102,500 | 879,772 | 982,272 |
| Operating transfers out | (110,808) | (789,864) | - | - | (900,672) |
| <u>Total other financing sources (uses)</u> | <u>(110,808)</u> | <u>(789,864)</u> | <u>1,377,500</u> | <u>879,772</u> | <u>1,356,600</u> |
| Excess (deficit) of revenues and other financing sources over expenditures and other financing uses | <u>-</u> | <u>-</u> | <u>159,819</u> | <u>-</u> | <u>-</u> |
| Fund balance, July 1, 2008 | <u>-</u> | <u>1,001</u> | <u>8,917</u> | <u>-</u> | <u>596,643</u> |
| Fund balance, June 30, 2009 | <u>-</u> | <u>1,001</u> | <u>168,736</u> | <u>-</u> | <u>169,737</u> |

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEPOWELL COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2009

| <u>Fund Accounts</u> | <u>Revenues</u> | <u>Expenditures</u> | <u>Excess (Deficit) of Revenues over Expenditures</u> | <u>Fund Balance July 1, 2008</u> | <u>Fund Balance June 30, 2009</u> |
|-----------------------|-----------------|---------------------|---|--------------------------------------|---------------------------------------|
| General | 26,000 | 27,468 | (1,468) | 5,468 | 4,000 |
| Teacher Vending | 1,506 | 1,501 | 5 | 565 | 570 |
| Foundation Grants | - | 1,250 | (1,250) | 4,393 | 3,143 |
| Student Vending | 893 | 302 | 591 | 110 | 701 |
| AP English | - | - | - | 50 | 50 |
| Courtesy Committee | 280 | 232 | 48 | 20 | 68 |
| PTO | 3,656 | 4,133 | (477) | 4,782 | 4,305 |
| Art Class Fee | 400 | 994 | (594) | 608 | 14 |
| Chess Team | - | - | - | 43 | 43 |
| STLP | 308 | 345 | (37) | 476 | 439 |
| FMD Classroom | 1,167 | 1,167 | - | - | - |
| Humanities Trip | 4,495 | 3,960 | 535 | 692 | 1,227 |
| Science Grant | 200 | 103 | 97 | 55 | 152 |
| Student Testing | 1,768 | 1,808 | (40) | 40 | - |
| NYC Trip | - | 117 | (117) | 117 | - |
| Graduation/Honors | 3,200 | 3,177 | 23 | 88 | 111 |
| Social Studies Grant | 500 | - | 500 | - | 500 |
| Upper Room | - | 12 | (12) | 146 | 134 |
| Academic Team | 4,694 | 4,911 | (217) | 3,675 | 3,458 |
| Art | - | - | - | 366 | 366 |
| Student Parking | 875 | 757 | 118 | 452 | 570 |
| Library | 189 | 432 | (243) | 452 | 209 |
| Spanish | 333 | 407 | (74) | 91 | 17 |
| Entrepreneurship | 7,065 | 7,711 | (646) | 1,583 | 937 |
| Home Economics | 185 | 664 | (479) | 480 | 1 |
| Textbook Rental | 15,905 | 16,388 | (483) | 4,802 | 4,319 |
| Prom | 9,338 | 10,166 | (828) | 1,957 | 1,129 |
| Senior Class | 7,000 | 8,478 | (1,478) | 2,368 | 890 |
| Class of 2009 | 40,903 | 41,126 | (223) | 653 | 430 |
| Class of 2010 | 1,045 | - | 1,045 | - | 1,045 |
| Band | 39,698 | 37,416 | 2,282 | 165 | 2,447 |
| FBLA | 6,135 | 4,426 | 1,709 | 2 | 1,711 |
| Ecology Club | - | 98 | (98) | 222 | 124 |
| Youth Services Center | 11,402 | 11,225 | 177 | 4,240 | 4,417 |
| Snack Shack | 482 | - | 482 | - | 482 |
| Dance Team | - | - | - | 239 | 239 |
| Chorus | - | - | - | 52 | 52 |
| Yearbook | 20,713 | 12,916 | 7,797 | 10,645 | 18,442 |
| Pirate Press | 20 | - | 20 | 377 | 397 |
| Paper Fund | 1,280 | 1,379 | (99) | 251 | 152 |
| Counselors | 1,068 | 154 | 914 | 5 | 919 |
| Charitable | 90 | 111 | (21) | 21 | - |

This fund maintains accounts separate from MUNIS at June 30, 2009.

POWELL COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEPOWELL COUNTY HIGH SCHOOL ACTIVITY FUND (CONTINUED)For the Year Ended June 30, 2009

| <u>Fund Accounts</u> | <u>Revenues</u> | <u>Expenditures</u> | <u>Excess (Deficit) of Revenues over Expenditures</u> | <u>Fund Balance July 1, 2008</u> | <u>Fund Balance June 30, 2009</u> |
|---------------------------|-----------------|---------------------|---|--------------------------------------|---------------------------------------|
| Locker Rental | 2,848 | 1,028 | 1,820 | 1,251 | 3,071 |
| Beta Club | 560 | 668 | (108) | 623 | 515 |
| Drama Club | - | 172 | (172) | 1,063 | 891 |
| FCA | 130 | 52 | 78 | 549 | 627 |
| FFA | 9,317 | 8,098 | 1,219 | 744 | 1,963 |
| FCCLA | 14,179 | 14,786 | (607) | 1,292 | 685 |
| French Club | - | - | - | 111 | 111 |
| Student Council | 49 | - | 49 | 43 | 92 |
| Agriculture | - | 687 | (687) | 687 | - |
| Hometown Scholarship | 1,964 | 1,249 | 715 | - | 715 |
| FEA Club | 195 | 476 | (281) | 520 | 239 |
| Sew What | 74 | 753 | (679) | 1,348 | 669 |
| Pep Club | 20 | - | 20 | 636 | 656 |
| TSA | 120 | 130 | (10) | 32 | 22 |
| Special Olympics | 1,546 | 1,262 | 284 | - | 284 |
| HOSA | 9,085 | 9,415 | (330) | 1,088 | 758 |
| Service Learning | 143 | - | 143 | - | 143 |
| Construction Class | 195 | 44 | 151 | - | 151 |
| tenny Ostrem | - | 100 | (100) | 100 | - |
| Gen. Athletics | 124,805 | 122,305 | 2,500 | 6,804 | 9,304 |
| Baseball | 20,444 | 19,812 | 632 | 1,587 | 2,219 |
| Boys Basketball | 21,215 | 18,591 | 2,624 | 659 | 3,283 |
| Girls Basketball | 9,167 | 8,370 | 797 | 3,790 | 4,587 |
| Cheerleaders - Varsity | 11,057 | 11,818 | (761) | 4,441 | 3,680 |
| Concessions | 25,185 | 25,823 | (638) | 888 | 250 |
| Football | 15,107 | 15,934 | (827) | 9,657 | 8,830 |
| Boys Golf | 2,923 | 2,824 | 99 | 1,180 | 1,279 |
| Girls Golf | 1,204 | 2,365 | (1,161) | 3,154 | 1,993 |
| Softball | 12,599 | 11,295 | 1,304 | 1,234 | 2,538 |
| Track | 3,008 | 3,630 | (622) | 1,332 | 710 |
| Cross Country | 1,901 | 2,733 | (832) | 3,081 | 2,249 |
| Volleyball | 7,837 | 8,828 | (991) | 2,658 | 1,667 |
| 4th and 5th Grade | 2,798 | 499 | 2,299 | 630 | 2,929 |
| Student Field Trips | 460 | 250 | 210 | 23 | 233 |
| Band Trip | 7,521 | 10,451 | (2,930) | 3,047 | 117 |
| Band Uniforms | 6,912 | 6,638 | 274 | 2 | 276 |
| Gen Athletics/Extras | 6,217 | 5,984 | 233 | 165 | 398 |
| <u>Sub-total</u> | <u>533,578</u> | <u>522,404</u> | <u>11,174</u> | <u>105,170</u> | <u>116,344</u> |
| Less: Interfund transfers | <u>(78,153)</u> | <u>(78,153)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>Total</u> | <u>455,425</u> | <u>444,251</u> | <u>11,174</u> | <u>105,170</u> | <u>116,344</u> |

This fund maintains accounts separate from MUNIS at June 30, 2009.

POWELL COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCEMIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2009

| | Powell County Middle School | Bowen Elementary | Clay City Elementary | Stanton Elementary | Total (Memorandum Only) |
|---|--------------------------------|----------------------|-------------------------|-----------------------|-------------------------------|
| <u>REVENUES:</u> | | | | | |
| Activity funds | 151,872 | 27,305 | 22,146 | 37,764 | 239,087 |
| <u>EXPENDITURES:</u> | | | | | |
| Activity funds | <u>156,990</u> | <u>40,084</u> | <u>18,796</u> | <u>36,895</u> | <u>252,765</u> |
| Excess or (deficiency) of revenues over <u>expenditures</u> | (5,118) | (12,779) | 3,350 | 869 | (13,678) |
| Fund Balance, July 1, 2008 | <u>50,021</u> | <u>44,800</u> | <u>20,781</u> | <u>17,305</u> | <u>132,907</u> |
| Fund Balance, June 30, 2009 | <u><u>44,903</u></u> | <u><u>32,021</u></u> | <u><u>24,131</u></u> | <u><u>18,174</u></u> | <u><u>119,229</u></u> |

These funds maintain accounting separate from MUNIS at June 30, 2009.

POWELL COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2009

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantors Number</u> | <u>Program Award Amount</u> | <u>2009 Program Expenditures</u> |
|---|------------------------------------|---|-------------------------------------|--|
| <u>U. S. Department of Agriculture</u> | | | | |
| Passed through State Department of Education: | | | | |
| - Child Nutrition Cluster - | | | | |
| School Breakfast Program | * 10.553 | 7760005 08 | N/A | 58,596 |
| | * 10.553 | 7760005 09 | | 136,638 |
| | | | | <u>195,234</u> |
| | | | | |
| School Lunch Program | * 10.555 | 7750002 08 | N/A | 195,110 |
| | * 10.555 | 7750002 09 | | 444,088 |
| | | | | <u>639,198</u> |
| | | | | |
| Summer Food Service Program for Children | * 10.559 | 7740023 08 | N/A | 6,850 |
| | * 10.559 | 7690024 09 | | 710 |
| | | | | <u>7,560</u> |
| | | | | |
| Passed through State Department of Agriculture: | | | | |
| Food Donation (Non-cash assistance) | 10.550 | N/A | N/A | <u>67,242</u> |
| <u>Total U.S. Department of Agriculture</u> | | | | <u>909,234</u> |
| | | | | |
| <u>U. S. Department of Education</u> | | | | |
| Passed through State Department of Education: | | | | |
| Title 1 Grants to Local Education Agencies | * 84.010 | 3108 | 909,358 | 113,706 |
| | * 84.010 | 3109 | 882,239 | 774,433 |
| | * 84.010 | 3108M | 10,703 | 441 |
| | * 84.010 | 3109M | 9,924 | 9,924 |
| | * 84.010 | 3109D | 99,240 | 92,047 |
| Title 1 Grants to Local Education Agencies - Recovery Act | * 84.389A | 3919 | 841,742 | 7,362 |
| | | | | <u>997,913</u> |
| | | | | |
| Migrant Education - State Grant Program | 84.011 | 3117 | 144,144 | 8,300 |
| | 84.011 | 3118 | 162,980 | 11,365 |
| | 84.011 | 3119 | 144,840 | 125,286 |
| | | | | <u>144,951</u> |
| | | | | |
| Title III | 84.031A | 3459 | 605 | <u>605</u> |

* - Indicates major programs

POWELL COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

For the Year Ended June 30, 2009

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantors Number</u> | <u>Program Award Amount</u> | <u>2009 Program Expenditures</u> |
|---|------------------------------------|---|-------------------------------------|--|
| - Special Education Cluster - | | | | |
| Special Education - Grants to States | * 84.027 | 3378 | 527,501 | 81,992 |
| | * 84.027 | 3379 | 527,937 | 435,332 |
| | | | | 517,324 |
| Special Education - Preschool Grants | * 84.173 | 3439 | 33,708 | 33,708 |
| Title IV | | | | |
| Safe and Drug Free Schools and Communities | | | | |
| - State Grants | 84.186 | 4069 | 13,852 | 13,852 |
| Vocational Education - Basic Grants to States | 84.048 | 3488A | 717 | 717 |
| | 84.048 | 3489 | 35,735 | 35,735 |
| | | | | 36,452 |
| Education Technology - State Grants | 84.318 | 4257 | 9,234 | 2,968 |
| | 84.318 | 4258 | 9,086 | 6,620 |
| | | | | 9,588 |
| Title VI | | | | |
| Rural Education | 84.358 | 3508 | 76,114 | 31,381 |
| | 84.358 | 3509 | 63,474 | 57,429 |
| | | | | 88,810 |
| Improving Teacher Quality State Grants | 84.367 | 4018 | 207,320 | 4,102 |
| | 84.367 | 4019 | 211,862 | 209,376 |
| | | | | 213,478 |
| Title II - Teaching American History | 84.215X | 5669 | 345,130 | 209,715 |
| Tech Prep Education | 84.243 | 3638 | 11,316 | 14,350 |
| Building Excellence in Literacy through Libraries | 84.364A | 3228 | 309,064 | 16,712 |
| Passed through Workforce Cabinet: | | | | |
| Adult Education - State Grant Program | 84.002 | 3739 | 48,755 | 48,755 |
| | 84.002 | 3739S | 2,509 | 2,509 |
| | | | | 51,264 |

* - Indicates major programs

POWELL COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2009

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantors Number</u> | <u>Program Award Amount</u> | <u>2009 Program Expenditures</u> |
|---|------------------------------------|---|-------------------------------------|--|
| - Direct - | | | | |
| Twenty-First Century Community Learning Centers | 84.287 | 5507 | 225,000 | 18,791 |
| | 84.287 | 5508S | 5,000 | 5,000 |
| | 84.287 | 5509 | 75,000 | 67,878 |
| | 84.287 | 5509S | 5,000 | 1,951 |
| | | | | <u>93,620</u> |
| <u>Total U.S. Department of Education</u> | | | | <u>2,442,342</u> |
| <u>Corporation for National and Community Service</u> | | | | |
| Passed through State Department of Education | | | | |
| Learn and Serve America - School and | | | | |
| Community Based Programs | 94.004 | 6758 | 4,300 | <u>3,677</u> |
| <u>Total Federal Awards Expended</u> | | | | <u>3,355,253</u> |

* - Indicates major programs

NOTE A

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Powell County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

NOTE B

Non-monetary assistance is reported in the schedule at the fair value of the food donations disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

State Committee for School District Audits
Members of Powell County Board of Education
Stanton, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Powell County School District as of and for the year ended June 30, 2009 which collectively comprise the Powell County School District's basic financial statements and have issued our report thereon dated October 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Powell County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Powell County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Powell County School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Powell County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Powell County School District's financial statements that is more than inconsequential will not be prevented or detected by the Powell County School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Powell County School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Powell County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Powell County School District, in a separate letter dated October 26, 2009. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

This report is intended solely for the information and use of the Board, management, others within the entity, the Kentucky Department of Education, the Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 26, 2009

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

State Committee for School District Audits
Members of Powell County Board of Education
Stanton, Kentucky

Compliance

We have audited the compliance of Powell County School District, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Powell County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Powell County School District's management. Our responsibility is to express an opinion on Powell County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Powell County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Powell County School District's compliance with those requirements.

In our opinion, Powell County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Powell County School District, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Powell County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Powell County School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses, as defined above.

This report is intended solely for the information of and use of the Board, management, others within the entity, the Kentucky Department of Education, the Kentucky State Committee for School District Audits, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 26, 2009

POWELL COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2009

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS –

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

POWELL COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2009- SUMMARY OF AUDIT RESULTS –

1. We have issued an unqualified opinion on the financial statements.
2. No control deficiency was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No reportable control deficiencies were disclosed by the audit in internal control over major programs.
5. We have issued an unqualified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Powell County School District had the following major programs:

U. S. Department of Education

- Passed through State Department of Education -

Title I

CFDA number 84.010

Title I Grants to Local Agencies

CFDA number 84.389A

- Special Education Cluster -

IDEA-B Basic

CFDA number 84.027

IDEA-B Preschool

CFDA number 84.173

U.S. Department of Agriculture

- Passed through State Department of Education -

- Child Nutrition Cluster -

School Lunch and Breakfast Program, Summer Food Service
Program for Children

CFDA numbers 10.553, 10.555 & 10.559

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

POWELL COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)For the Year Ended June 30, 2009

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS –

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

Chris Gooch

Certified Public Accountant
P.O. Box 1536
Hazard, Kentucky 41702
(606) 436-5700

FAX : (606) 436-5701

Powell County Board of Education
Stanton, Kentucky

In planning and performing our audit of the financial statements of Powell County School District for the year ended June 30, 2009, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated October 26, 2009, contains our report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect our report dated October 26, 2009, on the financial statements of the Powell County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read "Chris Gooch", with a stylized, cursive script.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 26, 2009

POWELL COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2009**Follow-up on Prior Year Comments**

1. Procedures for purchase orders

| | |
|------------------------|--|
| Condition: | We noted during a general fund test of disbursement transactions a purchase order to Roger's Hardware that was not a reasonable estimate to the corresponding invoice/check. |
| Cause: | The purchase order procedure did not include a reasonable estimate of the actual disbursed amount. |
| Criteria: | The purchase order should provide a reasonable estimate of the amount actually disbursed. |
| Effect: | The purchase order cannot be a useful accounting function for outstanding obligations if the amount stated is not a reasonable estimate. |
| Recommendations: | The District should ensure the stated amount of the purchase order is a reasonable estimate of the amount to be purchased. |
| Management's Response: | The District will review its procedures for purchase orders and ensure that the amount on the purchase orders is a reasonable estimate of the amount disbursed. |
| Current Year Comment: | We noted the amount on the purchased orders for the test sample selected reasonably agreed to the actual amount disbursed. |

2. Use of state prescribed forms for activity fund accounting.

| | |
|------------|---|
| Condition: | We noted two revenue-raising activities at the activity fund level that did not use state prescribed "red book" forms. Stanton Elementary School did not use inventory control forms for pencil sales. Bowen Elementary School did not use fund-raising forms for a yo-yo sale. |
| Cause: | The elementary schools did not use the forms to assist in reconciling its cash receipts to deposits and account for materials purchased for resale. |
| Criteria: | Fund activity revenue transactions that involve materials should employ the use of state prescribed forms to assist in reconciling inventory and cash receipts. |

POWELL COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTS (continued)For the Year Ended June 30, 2009**Follow-up on Prior Year Comments (continued)**

Effect: The risk is greater that all cash is not receipted/deposited or all materials accounted for without sufficient reconciliation procedures.

Recommendations: District's management should periodically perform a surprise review of fund raising reports and inventory control forms for those activities approved by the Board. District personnel should ensure that state prescribed forms are used when conducting a fund-raising activity or merchandise inventory is involved.

Management's Response: Management will periodically perform a review of fund raising reports and inventory control forms. District personnel will use state prescribed forms for the applicable activities.

Current Year Comment: Noted at Powell County High School two inventory control forms reviewed were not completed accurately.

3. Ensuring frequent deposits of cash receipts

Condition: Deposits were not made daily at Bowen Elementary School. The period between deposits was noted as up to two weeks.

Cause: A daily deposit was not made for cash received.

Criteria: Cash received should be receipted and a deposit made for those receipts on a more frequent basis. If a deposit is not made for that individual school day, a memorandum of explanation should be retained.

Effect: Cash not deposited could be used for activities unrelated to school functions.

Recommendations: District management should perform periodic reviews of activity fund accounting methods for cash received to ensure that deposits are made on a frequent basis.

Management's Response: Management will perform periodic review of activity fund accounting methods assuring timely deposits are made.

Current Year Comment: A pattern of infrequent deposits continues to occur at Bowen Elementary School based on our current year activity fund audit.

POWELL COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTS (continued)For the Year Ended June 30, 2009**Follow-up on Prior Year Comments (continued)**

4. Monitoring daily deposits for individual school food service activities.

| | |
|------------------------|--|
| Condition: | Each school food service site makes use of a daily record extended report system that records daily cash receipts. A written explanation is not provided for line items in the cash over/short column. Also, when depositing school food service cash receipts by District personnel, this form is not used in the reconciliation process. |
| Cause: | No written documentation is maintained for cash over/short items. The use of the daily record extended report system is not used as a reconciliation tool when depositing school food service receipts. |
| Criteria: | Cash deposited should be reconciled back to the individual school systems daily records of receipts. Explanations should be provided for all significant cash over/short items. |
| Effect: | Cash deposited may not reflect all cash receipts. Cash shortages/overages that do not have written evidence of review may denote misuse of school funds. |
| Recommendations: | District management should reconcile school food service deposits to the daily reports generated by each school and provide a written responses for shortages/overages. |
| Management's Response: | Management will reconcile school food service deposits to the daily reports generated and provide written responses to significant shortages/overages. |
| Current Year Comment: | We noted that a k-4 claim monthly meal count per school did not match the summary information submitted to regulatory authorities. The report submitted to the state omitted the Clay City Elementary School free lunch count on March 10 th totaling 342. |

Current Year Comments

1. Payments to contractors

| | |
|------------|--|
| Condition: | We noted one eligible contractor whose total payments at Powell County High School were \$1,050, omitted from 1099-MISC reporting. |
| Cause: | The school omitted this contractor from the listing submitted to the District for reporting purposes. |

POWELL COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTS (continued)For the Year Ended June 30, 2009**Current Year Comments (continued)**

| | |
|------------------------|---|
| Criteria: | Any individual performing services for the District should complete a W-9 form and payment information retained for reporting purposes to the Internal Revenue Service. |
| Effect: | The District did not report all eligible contractors to the Internal Revenue Service. |
| Recommendation: | The District should establish procedures enabling enhanced monitoring and reporting for contractor payment. |
| Management's Response: | The District will establish enhanced procedures for monitoring and reporting contractor payments. |

2. Incentive payments

| | |
|------------------------|--|
| Condition: | We noted a check to Wal-Mart written out of the General Operations account, #145306, in the amount of \$1,373.09 dated May 14, 2009 listed as gifts for an employee retreat. |
| Cause: | The District did not list the individual recipients of the items distributed. |
| Criteria: | The District should retain evidence of tangible goods distributed. The District should consider the tax effect for incentives distributed to District personnel. |
| Effect: | No evidence was retained to indicate that the tangible goods were used or distributed for school related functions. |
| Recommendations: | The District should establish procedures regarding personnel incentive payments that include retaining a listing of individual recipients of items distributed. |
| Management's Response: | The District will establish enhanced procedures for monitoring and reporting incentive payments. |